

**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Whitley County Fiscal Court for fiscal year ended June 30, 2005. Management did not include the Jail Canteen Fund, Whitley County Fiscal Court's major enterprise fund and only business-type activity. Since the amount by which this departure would affect the assets, fund balances, liabilities, net assets, revenues, and expenses of the business-type activities and the omitted major fund is not reasonably determinable, we have issued an adverse opinion on the Jail Canteen Fund and Whitley County Fiscal Court's business-type activities. We have issued unqualified opinions on Whitley County Fiscal Court's governmental activities, General Fund, Road Fund, Jail Fund, Ambulance Fund, Whitley County Public Properties Corporation Fund, Detention Facility Bond Fund, and the aggregate remaining fund information of Whitley County, Kentucky.

Financial Condition:

The fiscal court had unrestricted net assets of \$(1,125,024) in its governmental funds as of June 30, 2005, with total net assets of \$(1,443,886). As noted above, the fiscal court's only enterprise fund, the Jail Canteen Fund, has been omitted from the fiscal court's financial statement. The fiscal court had total debt principal as of June 30, 2005 of \$11,542,233 with \$980,724 due within the next year.

Report Comments:

- 2005-01** The Fiscal Court Should Pay Invoices Within Thirty Days
- 2005-02** The Fiscal Court Should Pay The County Judge/Executive In Accordance With Maximum Salary And Training Incentive Guidelines As Established By The Governor's Office For Local Development
- 2005-03** The Fiscal Court Should Pay The Jailer In Accordance With Salary Guidelines As Established By The Governor's Office For Local Development
- 2005-04** The County Should Pay All Bank Notes By The End Of The Fiscal Year
- 2005-05** Jail Telephone Commissions Should Be Deposited In The Jail Fund
- 2005-06** Restricted Local Government Economic Assistance Monies Should Be Returned to LGEA Fund
- 2005-07** Internal Controls Over Employee Time Recordkeeping Should Be Strengthened

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
WHITLEY COUNTY OFFICIALS	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	24
BUDGETARY COMPARISON SCHEDULES	45
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	49
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	52
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	56
COMMENTS AND RECOMMENDATIONS	61
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	67
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
James R. Farris, Secretary
Finance and Administration Cabinet
Honorable Burley Foley, Former Whitley County Judge/Executive
Honorable Michael L. Patrick, Former Whitley County Judge/Executive
Honorable Pat White, Jr., Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Whitley County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Whitley County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Whitley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Management has not included the Jail Canteen Fund, a major enterprise fund in Whitley County's financial statements. Accounting principles generally accepted in the United States of America require the Jail Canteen Fund to be presented as a major enterprise fund and financial information about the Jail Canteen Fund to be a part of the business-type activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, fund balances, liabilities, net assets, revenues, and expenses of the business-type activities and the omitted major fund is not reasonably determinable.

In our opinion, because of the omission of the Jail Canteen Fund, as discussed above, the financial statements referred to above do not present fairly in conformity with the basis of accounting described in Note 1, the financial position of the Jail Canteen Fund and the business-type activities of Whitley County, Kentucky, as of June 30, 2005, or the changes in financial position or cash flows thereof for the year then ended.



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Finally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, General Fund, Road Fund, Jail Fund, Ambulance Fund, Whitley County Public Properties Corporation Fund, Detention Facility Bond Fund, and the aggregate remaining fund information of Whitley County, Kentucky, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Whitley County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2007 on our consideration of Whitley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2005-01** The Fiscal Court Should Pay Invoices Within Thirty Days
- 2005-02** The Fiscal Court Should Pay The County Judge/Executive In Accordance With Maximum Salary And Training Incentive Guidelines As Established By The Governor's Office For Local Development
- 2005-03** The Fiscal Court Should Pay The Jailer In Accordance With Salary Guidelines As Established By The Governor's Office For Local Development
- 2005-04** The County Should Pay All Bank Notes By The End Of The Fiscal Year
- 2005-05** Jail Telephone Commissions Should Be Deposited In The Jail Fund

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2005-06 Restricted Local Government Economic Assistance Monies Should Be Returned to LGEA Fund

2005-07 Internal Controls Over Employee Time Recordkeeping Should Be Strengthened

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

March 14, 2007

WHITLEY COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Mike Patrick	County Judge/Executive
Nolan Bird	Magistrate
Burley Foley	Magistrate
Johnny Lawson	Magistrate
Wayne Wilson	Magistrate

Other Elected Officials:

Paul Winchester, Jr.	County Attorney
Jerry Taylor	Jailer
Tom Rains	County Clerk
Gary Barton	Circuit Court Clerk
Lawrence Hodge	Sheriff
Ronnie Moses	Property Valuation Administrator
Andy J. Croley	Coroner

Appointed Personnel:

Jeffrey L. Gray	County Treasurer
Judy Brimm	Finance Officer

WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

WHITLEY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 423,228
Investments	517,000
Total Current Assets	940,228
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	317,125
Land Improvements	405,077
Buildings	6,156,983
Equipment	574,200
Vehicles	300,671
Infrastructure Assets - Net of Depreciation	1,404,063
Total Noncurrent Assets	9,158,119
Total Assets	10,098,347
LIABILITIES	
Current Liabilities:	
Bonds Payable	125,000
Bank Notes Payable	208,190
Financing Obligations Payable	647,534
Total Current Liabilities	980,724
Noncurrent Liabilities:	
Bonds Payable	7,560,000
Bank Notes Payable	464,810
Financing Obligations Payable	2,536,699
Total Noncurrent Liabilities	10,561,509
Total Liabilities	11,542,233
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(866,114)
Restricted For:	
Debt Service	547,252
Unrestricted	(1,125,024)
Total Net Assets	\$ (1,443,886)

The accompanying notes are an integral part of the financial statements.

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WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 2,027,119	\$ 1,550	\$ 148,468	\$ 3,903
Protection to Persons and Property	2,773,162	1,847,078	315,358	73,729
General Health and Sanitation	447,105		2,301	
Social Services	3,100			
Recreation and Culture	44,771			
Roads	992,407		2,096,656	
Debt Service	559,921			
Capital Projects	1,390,089			1,454,324
Total Governmental Activities	\$ 8,237,674	\$ 1,848,628	\$ 2,562,783	\$ 1,531,956
Total Primary Government	\$ 8,237,674	\$ 1,848,628	\$ 2,562,783	\$ 1,531,956

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Unmined Minerals
TVA
National Forest
In Lieu of Taxes
Other Taxes
Excess Fees
Commissions
Insurance Proceeds
Reimbursements
Miscellaneous Revenues
Off Track Betting Proceeds
Accrued Interest Received

Total General Revenues
Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses)
Revenues and
Changes in Net Assets
Primary Government

Governmental
Activities

\$	(1,873,198)
	(536,997)
	(444,804)
	(3,100)
	(44,771)
	1,104,249
	(559,921)
	64,235
	<u>(2,294,307)</u>
	<u>(2,294,307)</u>

	677,688
	80,537
	145,461
	16,578
	8,882
	8,662
	64,170
	396,020
	137,666
	937
	8,930
	6,436
	207,207
	18,475
	47,977
	<u>1,825,626</u>
	<u>(468,681)</u>
	<u>(975,205)</u>
\$	<u><u>(1,443,886)</u></u>

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WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 99,756	\$ 62,304	\$ 139,050	\$ 45,954
Investments				
Total Assets	<u>\$ 99,756</u>	<u>\$ 62,304</u>	<u>\$ 139,050</u>	<u>\$ 45,954</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Bank Note Payable	\$ 520,000	\$	\$ 153,000	\$
Fund Balances:				
Reserved for:				
Encumbrances	154,710	87,205	966,348	722
Debt Service				
Unreserved:				
General Fund	(574,954)			
Special Revenue Funds		(24,901)	(980,298)	45,232
Capital Projects Funds				
Total Liabilities and Fund Balances	<u>\$ 99,756</u>	<u>\$ 62,304</u>	<u>\$ 139,050</u>	<u>\$ 45,954</u>

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Public Properties Corporation Fund	Detention Facility Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 30,252	\$ 45,912	\$ 423,228
	517,000		517,000
<u>\$ 0</u>	<u>\$ 547,252</u>	<u>\$ 45,912</u>	<u>\$ 940,228</u>
\$	\$	\$	\$ 673,000
			1,208,985
	547,252		547,252
			(574,954)
		45,412	(914,555)
		500	500
<u>\$ 0</u>	<u>\$ 547,252</u>	<u>\$ 45,912</u>	<u>\$ 940,228</u>

**Reconciliation of the Balance Sheet - Governmental
Funds to the Statement of Net Assets**

Total Fund Balances	\$ 267,228
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	11,406,369
Accumulated Depreciation	(2,248,250)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(3,184,233)
Bonded Debt	<u>(7,685,000)</u>
Net Assets Of Governmental Activities	<u>\$ (1,443,886)</u>

The accompanying notes are an integral part of the financial statements.

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**WHITLEY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

WHITLEY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Ambulance Fund</u>
REVENUES				
Taxes	\$ 1,079,250	\$	\$	\$
In Lieu Tax Payments	73,052	8,662		
Excess Fees	137,666			
Licenses and Permits	1,550			
Intergovernmental	1,380,474	2,016,813	938,870	
Charges for Services			57,650	983,551
Miscellaneous	201,469	33,223	103	4,680
Interest	4,410	792	1,564	174
Total Revenues	<u>2,877,871</u>	<u>2,059,490</u>	<u>998,187</u>	<u>988,405</u>
EXPENDITURES				
General Government	786,215	14,400		
Protection to Persons and Property	184,401		1,325,512	821,547
General Health and Sanitation	289,400			
Social Services	3,100			
Recreation and Culture				
Roads		1,237,443		
Debt Service	430,906	330,151	8,090	30,749
Capital Projects	1,056,389	350,889		
Administration	472,294	168,618	219,768	241,918
Total Expenditures	<u>3,222,705</u>	<u>2,101,501</u>	<u>1,553,370</u>	<u>1,094,214</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(344,834)</u>	<u>(42,011)</u>	<u>(555,183)</u>	<u>(105,809)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	647,611	465,000	1,037,467	245,000
Transfers To Other Funds	(1,447,943)	(370,000)	(509,178)	(157,000)
Insurance Proceeds on Disposed Capital As	12,185			
Total Other Financing Sources (Uses)	<u>(788,147)</u>	<u>95,000</u>	<u>528,289</u>	<u>88,000</u>
Net Change in Fund Balances	(1,132,981)	52,989	(26,894)	(17,809)
Fund Balances - Beginning	712,737	9,315	12,944	63,763
Fund Balances - Ending	<u>\$ (420,244)</u>	<u>\$ 62,304</u>	<u>\$ (13,950)</u>	<u>\$ 45,954</u>

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Public Properties Corporation Fund	Detention Facility Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 235,672	\$ 1,314,922
			81,714
			137,666
			1,550
		567,331	4,903,488
			1,041,201
	1,000		240,475
10,011	30,581	445	47,977
<u>10,011</u>	<u>31,581</u>	<u>803,448</u>	<u>7,768,993</u>
			800,615
		241,380	2,572,840
		157,705	447,105
			3,100
		44,771	44,771
		64,374	1,301,817
	513,239	9,355	1,322,490
			1,407,278
	1,000	56,916	1,160,514
	<u>514,239</u>	<u>574,501</u>	<u>9,060,530</u>
10,011	(482,658)	228,947	(1,291,537)
	434,178	42,240	2,871,496
(19,931)		(367,444)	(2,871,496)
			12,185
<u>(19,931)</u>	<u>434,178</u>	<u>(325,204)</u>	<u>12,185</u>
(9,920)	(48,480)	(96,257)	(1,279,352)
9,920	595,732	142,169	1,546,580
<u>\$ 0</u>	<u>\$ 547,252</u>	<u>\$ 45,912</u>	<u>\$ 267,228</u>

The accompanying notes are an integral part of the financial statements.

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**WHITLEY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

**WHITLEY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (1,279,352)
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	531,595
Depreciation Expense	(464,735)
Decrease in Capital Assets Due to Disposal	(18,758)
Financing Obligation and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.	
Financing Obligations	647,569
Bond Payments	<u>115,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (468,681)</u></u>

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Whitley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though it is part of the county's primary government using the blending method.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Whitley County Public Properties Corporation

The Whitley County Fiscal Court (Fiscal Court) established the Whitley County Public Properties Corporation (Corporation) for the purpose of financing courthouse renovations and road projects. The Corporation's governing body consists entirely of the Fiscal Court members. Therefore, management must include the Corporation as part of the reporting entity, and the Corporation's financial activity is blended with that of the Fiscal Court.

C. Whitley County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Whitley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Whitley County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on July 15, following the delinquency date.

Funds are characterized as either major or non-major funds. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements. Whitley County has omitted its major enterprise fund from its financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development (GOLD) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The primary purpose of this fund is to provide emergency medical service for the county. The primary sources of revenue for this fund are federal, state, and private insurance billings.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Whitley County Public Properties Corporation Fund – The Whitley County Public Properties Corporation, a blended component unit of the County, is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest issued by the Corporation for the purpose of courthouse renovations and road projects. GOLD does not require the Fiscal Court to report or budget these funds.

Detention Facility Bond Fund – This fund is used to account for the accumulation of resources for, and the payment of principal and interest on general obligation bonds issued by the County for the purpose of financing the acquisition, construction, and equipping of a new detention center. GOLD does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grants Fund, Forestry Fund, Tourism Room Tax Fund, 911 Fund, and the 92 E Water Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, Local Government Economic Assistance Fund, Federal Grants Fund, Forestry Fund, Tourism Room Tax Fund, and 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The 92 E Water Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Whitley County Public Properties Corporation Fund and the Detention Facility Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. However, the Jail Canteen Fund is omitted from the primary government's financial statements, as those records were not available.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 15,000	10-75
Building Improvements	\$ 15,000	10-60
Machinery and Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	3-12
Infrastructure	\$ 20,000	10-50

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Whitley County Public Properties Corporation Fund (blended component unit) and the Detention Facility Bond Fund are not budgeted by the county treasurer. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Whitley County Fiscal Court: Whitley County Water District and Cumberland Falls Water Highway District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Whitley County Fiscal Court:

- The Williamsburg/Whitley County Airport Board (with the City of Williamsburg)

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The County did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

As of June 30, 2005, Whitley County's investments were as follows:

<u>Investments</u>	<u>Maturity</u>	<u>Cost</u>	<u>Market Value</u>	<u>Rating</u>	<u>Concentration</u>
Primary Government					
Federal National					
Mortgage Association	10/8/2027	\$ 517,000	\$ 181,031	AAA	1.000
Interest Rate Risk					

The County does not have a formal policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency; bankers' acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; and securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. Certificates of deposit are not considered a limited investment per KRS 66.480. The County had no investments policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 317,125	\$	\$	\$ 317,125
Construction In Progress	5,565,229		(5,565,229)	
Total Capital Assets Not Being Depreciated	<u>5,882,354</u>		<u>(5,565,229)</u>	<u>317,125</u>
Capital Assets, Being Depreciated:				
Buildings	2,306,699	5,007,644		7,314,343
Land Improvements		416,889		416,889
Equipment	653,111	172,885		825,996
Vehicles	692,174		(22,600)	669,574
Infrastructure	1,363,036	499,406		1,862,442
Total Capital Assets Being Depreciated	<u>5,015,020</u>	<u>6,096,824</u>	<u>(22,600)</u>	<u>11,089,244</u>
Less Accumulated Depreciation For:				
Buildings	(973,159)	(184,201)		(1,157,360)
Land Improvements		(11,812)		(11,812)
Equipment	(213,786)	(38,010)		(251,796)
Vehicles	(318,667)	(54,078)	3,842	(368,903)
Infrastructure	<u>(281,745)</u>	<u>(176,634)</u>		<u>(458,379)</u>
Total Accumulated Depreciation	<u>(1,787,357)</u>	<u>(464,735)</u>	<u>3,842</u>	<u>(2,248,250)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,227,663</u>	<u>5,632,089</u>	<u>(18,758)</u>	<u>8,840,994</u>
Government Activities Capital Assets, Net	<u>\$ 9,110,017</u>	<u>\$ 5,632,089</u>	<u>\$ (5,583,987)</u>	<u>\$ 9,158,119</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 59,417
Protection to Persons and Property	200,322
Roads, Including Depreciation of General Infrastructure Assets	<u>204,996</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 464,735</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Short-Term Debt

- A. On July 12, 2004, Whitley County participated in the Kentucky Association of Counties Advance Revenue Program by issuing a note in the amount of \$244,200, with principal being due on January 31, 2005. The County used the borrowed funds to meet current General Fund expenses. Interest on long-term and short-term debt on the Statement of Activities includes \$2,524 in interest on the short-term borrowing.
- B. On November 4, 2004, the Whitley County Fiscal Court borrowed \$300,000 in order to meet current General Fund expenses. The short-term bank note was paid in full on April 26, 2005, from the proceeds of an additional short-term bank note. Interest on long-term and short-term debt on the Statement of Activities includes \$9,025 in interest on the short-term borrowing.
- C. On April 26, 2005, the Whitley County Fiscal Court borrowed \$673,000 in order to meet current operating expenses of the General Fund and the Jail Fund, as well as to pay off the short-term bank note dated November 4, 2004. The short-term bank note was paid in full on June 30, 2005, from the proceeds of an additional three-year long-term bank note. (Note 5. K.) Interest on long-term and short-term debt on the Statement of Activities includes \$8,090 in interest on the short-term borrowing.

Changes In Short-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$ 0	\$ 244,100	\$ 244,100	\$ 0
Bank Notes Payable		973,000	973,000	
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 1,217,100</u>	<u>\$ 1,217,100</u>	<u>\$ 0</u>

Note 5. Long-Term Debt

A. Road Paving Projects

On October 24, 2001, Whitley County entered into a \$495,000 financing obligation agreement with the Kentucky Association of Counties Leasing Trust Program for road paving projects. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2006. The principal balance of the agreement was \$105,000 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest and Fees	Scheduled Principal
2006	<u>\$ 2,347</u>	<u>\$ 105,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

B. General Obligation Bonds, Series 2002

Bonds outstanding of the Whitley County Detention Facility Bond Fund were \$7,685,000 of General Obligation Bonds issued on April 1, 2002, with interest rates of 5.0% through 5.20% payable semiannually October 1 and April 1. These bonds were issued for the purpose of financing the acquisition, construction, and equipping of a new detention center facility. The total issue of the bonds is \$7,800,000 with principal paid annually on April 1. Future principal and interest payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 392,489	\$ 125,000
2007	386,239	130,000
2008	379,739	135,000
2009	372,989	140,000
2010	365,989	150,000
2011-2015	1,710,195	865,000
2016-2020	1,471,195	1,105,000
2021-2025	1,163,098	1,410,000
2026-2030	763,119	1,810,000
2031-2034	242,060	1,815,000
Totals	<u>\$ 7,247,112</u>	<u>\$ 7,685,000</u>

C. Airport Land

On April 18, 2002, Whitley County entered into a \$765,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust for the acquisition of land for a new airport facility. Terms of the agreement stipulate a ten-year repayment schedule, with variable semi-annual interest payments and variable annual principal payments. Interest on the financing obligation is payable on November 20 and May 20, while principal payments are due only on May 20 annually. The principal balance was \$570,000 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 26,033	\$ 70,000
2007	23,058	75,000
2008	19,870	75,000
2009	16,570	80,000
2010	12,970	85,000
2011-2012	13,630	185,000
Totals	<u>\$ 112,131</u>	<u>\$ 570,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

D. Voting Machines

On July 25, 2002, Whitley County entered into a \$172,300 financing obligation agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of voting machines. The agreement requires variable monthly payments for 89 months to be paid in full January 20, 2010. The principal balance of the agreement was \$113,700 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 4,511	\$ 21,000
2007	3,592	21,900
2008	2,636	22,700
2009	1,645	23,600
2010	614	24,500
Totals	<u>\$ 12,998</u>	<u>\$ 113,700</u>

E. General Obligations

On June 4, 2003, Whitley County entered into a \$440,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust. The financing obligation proceeds were used to pay an outstanding bank loan, fund various county projects and to reimburse the county for repairs and expenses. The agreement requires variable semi-annual payments for 54 months to be paid in full May 1, 2008. The principal balance of the agreement was \$275,000 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 15,633	\$ 90,000
2007	10,772	90,000
2008	5,678	95,000
Totals	<u>\$ 32,083</u>	<u>\$ 275,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

F. Road Improvements

On June 4, 2003, Whitley County entered into a \$310,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust for the purpose of road improvements. The agreement requires variable semi-annual payments for 54 months to be paid in full April 20, 2008. The principal balance of the agreement was \$195,000 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 11,248	\$ 60,000
2007	7,998	65,000
2008	4,315	70,000
Totals	<u>\$ 23,561</u>	<u>\$ 195,000</u>

G. Court Facilities Project

On July 3, 2003, Whitley County entered into a \$605,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust for the court facilities project. A portion of the financing obligation proceeds was used to retire a \$245,000 financing obligation dated May 1, 2003. The remaining proceeds were to be used to renovate a building for use as court facilities; however, the project was subsequently determined not to be a viable project. On January 20, 2004, \$170,000 and \$160,000 of the financing obligation proceeds were transferred to the General Fund and Jail Fund, respectively, and used for county operations. The agreement requires variable semi-annual payments to be paid in full May 20, 2023. The principal balance of the agreement was \$565,000 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 23,280	\$ 20,000
2007	22,800	25,000
2008	22,200	25,000
2009	21,300	25,000
2010	20,400	25,000
2011-2015	86,880	145,000
2016-2020	54,653	175,000
2021-2023	12,112	125,000
Totals	<u>\$ 263,625</u>	<u>\$ 565,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

H. Ambulance

On October 23, 2003, Whitley County entered into a \$48,000 financing obligation agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of an ambulance. The agreement requires variable monthly payments for 36 months to be paid in full November 20, 2006. The principal balance of the agreement was \$23,220 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	491	16,285
2007	54	6,935
Totals	<u>\$ 545</u>	<u>\$ 23,220</u>

I. Sheriff's Vehicles

On March 23, 2004, Whitley County entered into an \$180,800 financing obligation agreement with the Kentucky Association of Counties Leasing Trust Program for eight (8) new sheriff police cars with new equipment for each unit. The agreement requires variable monthly payments for 36 months to be paid in full on November 20, 2006. The principal balance of the agreement was \$122,313 as of June 30, 2005. Payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 4,452	\$ 60,249
2007	1,333	62,064
Totals	<u>\$ 5,785</u>	<u>\$ 122,313</u>

J. Refunding of 1995 Bonds and 1997 Certificates

On April 2, 2004, Whitley County entered into a \$1,405,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust to refund \$1,130,000 of outstanding Public Project Refunding Revenue Bonds, Series 1995, issued for the purpose of courthouse renovations and certain road projects, and \$255,000 of Public Project Revenue Certificates of Participation, Series 1997, issued for road construction and repair. On November 1, 2004, \$1,095,667 of the proceeds plus an additional \$330,115 of 1995 Series debt service reserve monies were used to pay all future debt service payments on the 1995 Series and the 1997 Series. As a result, the 1995 Series and the 1997 Series were considered defeased as of June 30, 2004.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

J. Refunding of 1995 Bonds and 1997 Certificates (Continued)

The financing obligation agreement dated April 2, 2004, for \$1,405,000, requires variable semi-annual payments for 5 years to be paid in full April 20, 2009. The principal balance of the agreement was \$1,215,000 as of June 30, 2005. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 32,013	\$ 205,000
2007	27,913	435,000
2008	17,038	285,000
2009	9,200	290,000
Totals	<u>\$ 86,164</u>	<u>\$ 1,215,000</u>

K. Bank Note Payable

On June 30, 2005, Whitley County Fiscal Court refinanced a bank note of \$673,000 previously dated April 26, 2005. The original purpose of the bank note was to cover operating expenses of the General Fund and Jail Fund. Maturity date on the note is June 30, 2008, with semiannual payments due beginning December 20, 2005. The bank note is a variable rate loan, with the rate ranging from no less than 6.00% or higher than 18.00%. The principal balance of the bank note was \$673,000 as of June 30, 2005.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2006	\$ 47,793	\$ 208,190
2007-2008	variable	464,810
Totals	<u>variable</u>	<u>\$ 673,000</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt (Continued)

L. Changes In Long Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 7,800,000	\$ 0	\$ 115,000	\$ 7,685,000	\$ 125,000
Bank Note Payable		673,000		673,000	208,190
Financing Obligations	<u>3,831,802</u>		<u>647,569</u>	<u>3,184,233</u>	<u>647,534</u>
Governmental Activities Long-term Liabilities	<u>\$ 11,631,802</u>	<u>\$ 673,000</u>	<u>\$ 762,569</u>	<u>\$11,542,233</u>	<u>\$ 980,724</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$540,282 in interest on long-term bonds and financing obligations.

Note 7. Interfund Transfers

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Jail	Support for Jail Operations and Debt Service Requirements	\$ 792,703
General	911	Support for 911 Operations	42,200
General	Ambulance	Support for Ambulance Service	163,000
General	Forestry	Return of Forestry Tax Receipts	40
General	Road	Return of Restricted Road Monies and Support for Road Activities	450,000
Road	General	General Government Activities	370,000
Jail	General	Return of Excess Support	75,000
Jail	Detention Facility Bond	Debt Service Requirements	434,178
LGEA	General	General Government Activities	25,000
LGEA	Road	Support for Road Activities	15,000
LGEA	Ambulance	Support for Ambulance Service	82,000
LGEA	Jail	Support for Jail Operations	244,764
Ambulance	General	Return of Excess Support	157,000
92E Water	General	Close Out Grant Account	680
Public Properties Corporation	General	Close Out Public Properties' Accounts	19,931
			<u>\$ 2,871,496</u>

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 8. Related Party Transactions

During the year ended June 30, 2005, Whitley County Fiscal Court paid JLG Identification Solutions, Inc., \$3,525 for employee identification cards and uniforms for ambulance, 911, and jail employees, as well as jail inmates. The Whitley County Treasurer is a co-owner in this business. Because of the nature of the relationship between the business and the employee, the transactions are considered related party transactions.

Note 9. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

The Whitley County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary. Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road Suite #1, Frankfort, KY 40601-8862.

Note 11. Insurance

For the fiscal year ended June 30, 2005, Whitley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 12. Subsequent Events

On October 13, 2005, Jerry F. Taylor, Whitley County Jailer, entered an Alford Plea of Guilty in Whitley County Circuit Court on felony offenses of five counts of Forgery, First Degree. On November 14, 2005, Mr. Taylor was placed on supervised probation for a period of five years subject to his resignation as Jailer of Whitley County and full restitution to the Whitley County Fiscal Court, both of which were satisfied. Mr. Taylor resigned as Whitley County Jailer effective September 30, 2005 and made restitution of \$2,500 to the Whitley County Treasurer on September 30, 2005.

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WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 985,935	\$ 1,068,402	\$ 1,079,250	\$ 10,848
In Lieu of Taxes	67,200	67,882	73,052	5,170
Excess Fees	108,490	137,666	137,666	
Licenses and Permits	38,220	38,220	1,550	(36,670)
Intergovernmental Revenue	1,763,438	1,831,361	1,380,474	(450,887)
Miscellaneous Revenues	31,865	65,804	201,469	135,665
Interest	23,000	23,000	4,410	(18,590)
Total Revenues	<u>3,018,148</u>	<u>3,232,335</u>	<u>2,877,871</u>	<u>(354,464)</u>
EXPENDITURES				
General Government	748,582	851,188	786,215	64,973
Protection to Persons and Property	151,700	186,290	184,401	1,889
General Health and Sanitation	559,650	326,344	289,400	36,944
Social Services	4,500	4,500	3,100	1,400
Debt Service	773,970	1,357,870	430,906	926,964
Capital Projects	1,102,038	1,120,438	1,056,389	64,049
Administration	468,110	623,178	472,294	150,884
Total Expenditures	<u>3,808,550</u>	<u>4,469,808</u>	<u>3,222,705</u>	<u>1,247,103</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(790,402)</u>	<u>(1,237,473)</u>	<u>(344,834)</u>	<u>892,639</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money - Short-term	500,000	1,320,000	1,064,100	(255,900)
Borrowed Money Repaid - Short-term			(1,064,100)	(1,064,100)
Insurance Proceeds on Disposed Capital Asset			12,185	12,185
Transfers From Other Funds	700	700	647,611	646,911
Transfers To Other Funds	(444,180)	(793,816)	(1,447,943)	(654,127)
Total Other Financing Sources (Uses)	<u>56,520</u>	<u>526,884</u>	<u>(788,147)</u>	<u>(1,315,031)</u>
Net Changes in Fund Balance	(733,882)	(710,589)	(1,132,981)	(422,392)
Fund Balance - Beginning	<u>733,882</u>	<u>710,589</u>	<u>712,737</u>	<u>2,148</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (420,244)</u>	<u>\$ (420,244)</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 9,200	\$ 9,200	\$ 8,662	\$ (538)
Intergovernmental Revenue	1,681,860	2,202,965	2,016,813	(186,152)
Miscellaneous	1,000	13,405	33,223	19,818
Interest	2,500	2,500	792	(1,708)
Total Revenues	<u>1,694,560</u>	<u>2,228,070</u>	<u>2,059,490</u>	<u>(168,580)</u>
EXPENDITURES				
General Government	14,400	14,400	14,400	
Roads	854,560	1,359,253	1,237,443	121,810
Debt Service	320,200	330,156	330,151	5
Capital Projects	360,620	350,889	350,889	
Administration	164,780	171,999	168,618	3,381
Total Expenditures	<u>1,714,560</u>	<u>2,226,697</u>	<u>2,101,501</u>	<u>125,196</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(20,000)</u>	<u>1,373</u>	<u>(42,011)</u>	<u>(43,384)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			465,000	465,000
Transfers To Other Funds		(10,688)	(370,000)	(359,312)
Total Other Financing Sources (Uses)		<u>(10,688)</u>	<u>95,000</u>	<u>105,688</u>
Net Changes in Fund Balance	(20,000)	(9,315)	52,989	62,304
Fund Balance - Beginning	<u>20,000</u>	<u>9,315</u>	<u>9,315</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 62,304</u>	<u>\$ 62,304</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 781,650	\$ 835,793	\$ 938,870	\$ 103,077
Charges For Services	66,300	66,300	57,650	(8,650)
Miscellaneous	61,300	61,300	103	(61,197)
Interest	100	938	1,564	626
Total Revenues	<u>909,350</u>	<u>964,331</u>	<u>998,187</u>	<u>33,856</u>
EXPENDITURES				
Protection to Persons and Property	935,440	1,339,539	1,325,512	14,027
Debt Service	434,180	595,280	8,090	587,190
Administration	242,560	245,650	219,768	25,882
Total Expenditures	<u>1,612,180</u>	<u>2,180,469</u>	<u>1,553,370</u>	<u>627,099</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(702,830)</u>	<u>(1,216,138)</u>	<u>(555,183)</u>	<u>660,955</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money - Short-term		153,000		(153,000)
Transfers From Other Funds	687,830	1,050,194	1,037,467	(12,727)
Transfers To Other Funds			(509,178)	(509,178)
Total Other Financing Sources (Uses)	<u>687,830</u>	<u>1,203,194</u>	<u>528,289</u>	<u>(674,905)</u>
Net Changes in Fund Balance	(15,000)	(12,944)	(26,894)	(13,950)
Fund Balance - Beginning	<u>15,000</u>	<u>12,944</u>	<u>12,944</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (13,950)</u>	<u>\$ (13,950)</u>

WHITLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Charges For Services	\$ 952,350	\$ 952,350	\$ 983,551	\$ 31,201
Miscellaneous	3,000	4,680	4,680	
Interest	300	300	174	(126)
Total Revenues	<u>955,650</u>	<u>957,330</u>	<u>988,405</u>	<u>31,075</u>
EXPENDITURES				
Protection to Persons and Property	713,540	836,587	821,547	15,040
Debt Service	30,850	30,850	30,749	101
Administration	238,100	246,344	241,918	4,426
Total Expenditures	<u>982,490</u>	<u>1,113,781</u>	<u>1,094,214</u>	<u>19,567</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(26,840)</u>	<u>(156,451)</u>	<u>(105,809)</u>	<u>50,642</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		92,688	245,000	152,312
Transfers To Other Funds			(157,000)	(157,000)
Total Other Financing Sources (Uses)		<u>92,688</u>	<u>88,000</u>	<u>(4,688)</u>
Net Changes in Fund Balances	(26,840)	(63,763)	(17,809)	45,954
Fund Balances - Beginning	<u>26,840</u>	<u>63,763</u>	<u>63,763</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,954</u>	<u>\$ 45,954</u>

WHITLEY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund and the Detention Facility Bond Fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund and the Detention Facility Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**WHITLEY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

WHITLEY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Local Government			
	Economic	Federal		Tourist
	Assistance	Grants	Forestry	Room Tax
	Fund	Fund	Fund	Fund
ASSETS				
Cash and Cash Equivalents	\$ 22,510	\$ 158	\$ 4,356	\$ 7,892
Total Assets	<u>\$ 22,510</u>	<u>\$ 158</u>	<u>\$ 4,356</u>	<u>\$ 7,892</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	22,510	158	4,356	7,892
Capital Project Fund				
Total Fund Balances	<u>\$ 22,510</u>	<u>\$ 158</u>	<u>\$ 4,356</u>	<u>\$ 7,892</u>

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

<u>911 Fund</u>	<u>92 E Water Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$ 10,496	\$ 500	\$ 45,912
<u>\$ 10,496</u>	<u>\$ 500</u>	<u>\$ 45,912</u>
10,496	500	45,412
<u>10,496</u>	<u>500</u>	<u>45,912</u>
<u>\$ 10,496</u>	<u>\$ 500</u>	<u>\$ 45,912</u>

The accompanying notes are an integral part of the financial statements.

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WHITLEY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

WHITLEY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government			
	Economic	Federal	Forestry	Tourist
	Assistance	Grants	Fund	Room Tax
	Fund	Fund	Fund	Fund
REVENUES				
Taxes	\$	\$	\$ 3,096	\$ 44,864
Intergovernmental	437,492	62,873		
Charges For Services				
Miscellaneous				
Interest	184		39	64
Total Revenues	<u>437,676</u>	<u>62,873</u>	<u>3,135</u>	<u>44,928</u>
EXPENDITURES				
Protection to Persons and Property			3,366	
General Health and Sanitation	94,832	62,873		
Recreation and Culture				44,771
Roads	64,374			
Debt Service				
Capital Projects				
Administration				
Total Expenditures	<u>159,206</u>	<u>62,873</u>	<u>3,366</u>	<u>44,771</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	<u>278,470</u>		<u>(231)</u>	<u>157</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			40	
Transfers To Other Funds	(366,764)			
Total Other Financing Sources (Uses)	<u>(366,764)</u>		<u>40</u>	
Net Change in Fund Balances	(88,294)		(191)	157
Fund Balances - Beginning	110,804	158	4,547	7,735
Fund Balances - Ending	<u>\$ 22,510</u>	<u>\$ 158</u>	<u>\$ 4,356</u>	<u>\$ 7,892</u>

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 For The Year Ended June 30, 2005
 (Continued)

911 Fund	92 E Water Fund	Total Non-Major Governmental Funds
\$ 187,712	\$	\$ 235,672
66,486	480	567,331
158		445
<u>254,356</u>	<u>480</u>	<u>803,448</u>
238,014		241,380
		157,705
		44,771
		64,374
9,355		9,355
<u>56,916</u>		<u>56,916</u>
<u>304,285</u>		<u>574,501</u>
(49,929)	480	228,947
42,200		42,240
	(680)	(367,444)
<u>42,200</u>	<u>(680)</u>	<u>(325,204)</u>
(7,729)	(200)	(96,257)
18,225	700	142,169
<u>\$ 10,496</u>	<u>\$ 500</u>	<u>\$ 45,912</u>

The accompanying notes are an integral part of the financial statements.

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**WHITLEY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2005

**WHITLEY COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2005

2005-01 The Fiscal Court Should Pay Invoices Within Thirty Days

During our testing of expenditures, our sample of 40 expenditures revealed 11 invoices were not paid within 30 working days. KRS 65.140 requires all bills for goods and services to be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor. We recommend the County comply with KRS 65.140 by paying all goods and services within 30 working days.

Former County Judge/Executive Michael Patrick's Response: With the financial conditions of the county during this period, the fiscal court was often restricted with cash flow that prevented the court from being able to meet the 30 day requirement, but we continued to work on this issue to bring the county current on its bill paying process.

2005-02 The Fiscal Court Should Pay The County Judge/Executive In Accordance With Maximum Salary And Training Incentive Guidelines As Established By The Governor's Office For Local Development

The County Judge/Executive did not receive the training incentive payment of \$3,093 for calendar year 2004 as established by GOLD in accordance with KRS 64.5275. In addition, the prior year audit reported the County Judge/Executive was underpaid in salary and training incentive by a total of \$4,743 for calendar year 2003. We recommend the Fiscal Court pay the County Judge/Executive the training incentive of \$3,093 for calendar year 2004 as well as the additional salary and training incentive payment of \$4,743 for calendar year 2003 as required by KRS 64.5275.

Former County Judge/Executive Michael Patrick's Response: During this fiscal year, and the financial conditions of the county, and not being capable of increasing county employee pay rates, I did not feel that it was fair or proper that I receive an increase in pay or incentives. I refused to accept the increases as were described and issued orders not to make the increases or payment of training incentives.

2005-03 The Fiscal Court Should Pay The Jailer In Accordance With Salary Guidelines As Established By The Governor's Office For Local Development

The County Jailer was not paid in accordance with the salary limit set by GOLD for a Jailer who operates a non-full service jail. GOLD's salary limitation for the County Jailer was \$55,674 for calendar year 2004; however, the County Jailer received an annual salary of \$62,775 resulting in a 2004 salary overpayment of \$7,101. In addition, the prior year audit reported the County Jailer was overpaid in salary by a total of \$43,096 from calendar years 1999-2003. We recommend that the fiscal court take action to collect the salary overpayments from the County Jailer or obtain written documentation from GOLD allowing the salary the County Jailer received for calendar year 2004, as well as for calendar years 1999-2003.

Former County Judge/Executive Michael Patrick's Response: In an election year, the salary for the incoming Jailer is established in the budget in May or June prior to the Official taking office. When the budget was approved for the 1998-1999 fiscal year, the Whitley County Jail was a Full Service Facility. It was my interpretation of Election Law that the salary could not be altered from the approved amount in the budget. Prior to Mr. Taylor taking office on January 1, 1999, and after the implementation of this fiscal year's budget, which came into affect on July 1, 1998, the facility was reclassified by the Department of Corrections as a Life Safety Facility. It is still my contention, that Mr. Taylor's salary

WHITLEY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2005
(Continued)

2005-03 The Fiscal Court Should Pay The Jailer In Accordance With Salary Guidelines As Established By The Governor's Office For Local Development (Continued)

was set according to the budget and election law and that he was not overpaid. During the intervening years since Mr. Taylor has assumed office, the Department for Local Government and/or Governor's Office for Local Development has approved Whitley County's Budget each year from 1999 through the 2004-2005 Budget. I believe, that with the approval from the State Local Finance Office on Whitley County's Budgets, that this was tacit approval of the salary paid to the Whitley County Jailer.

2005-04 The County Should Pay All Bank Notes By The End Of The Fiscal Year

As of June 30, 2005, the County had outstanding bank notes of \$520,000 and \$153,000 in the General Fund and Jail Fund, respectively. These bank notes were obtained in April 2005 to be used to cover operating expenses through June 30, 2005. On June 30, 2005, the \$673,000 of bank notes was refinanced with a maturity date of June 30, 2008. We remind the County that KRS 65.7707 states that notes payable shall mature on a date determined by the governing body, which shall be no later than the last day of the fiscal year in which the notes are issued. We recommend the County comply with KRS 65.7707 by having all bank notes paid in full by June 30th of the fiscal year in which the notes were obtained.

Former County Judge/Executive Michael Patrick's Response: The Fiscal Court of any County is held responsible for obligations incurred by an Elected Jailer. Although a Fiscal Court may issue orders to control the expenses and obligations incurred by a jail, the Fiscal Court has no authority and/or enforcement powers to prevent the Jailer from totally disregarding those orders or instructions. With the inability of the Fiscal Court to control jail expenses during this term, this lead to increased obligation on the Court, which required the borrowing of these funds to meet these obligations. With consultation from the State Local Finance Officer and the Governor's Office for Local Development and their awareness that the Fiscal Court would be unable to repay this loan before the end of the fiscal year, the Court elected to finance the loan over a three-year period and with the understanding that the Court must implement an occupational tax as directed by the State in order to stabilize the financial position of the county and be able to have a balanced budget due to the expenses of the jail.

2005-05 Jail Telephone Commissions Should Be Deposited In The Jail Fund

During our testing of revenue, the County Treasurer informed us that he had not received any jail telephone commissions for FY 2005 from the County Jailer. Based on a confirmation we obtained from Securus Technology, jail telephone commission checks totaling \$18,227 were issued to the Whitley County Detention Center during FY 2005. The County Jailer should have turned these checks over to the County Treasurer to be deposited in the Jail Fund. It had been noted in the prior year audit report that some jail telephone commissions had been inappropriately deposited in the Jail Canteen Fund and/or Inmates Funds. However, the Jail Canteen Fund has been omitted from the county's financial statements, as the records of the County Jailer were not available. As an alternative audit procedure, we obtained copies of check images (front and back) from Securus Technology in order to try to determine the disposition of the receipts. Based on those copies, it appears \$2,797 and \$3,236 were deposited in the Inmates Funds account and the Jail Canteen account, respectively. We were unable to determine the disposition of the balance of \$12,194 of jail telephone commissions that Securus Technology confirmed to us that should have been received for the audit period, as the best copies available of the check images were not legible.

WHITLEY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2005
(Continued)

2005-05 Jail Telephone Commissions Should Be Deposited In The Jail Fund (Continued)

The following inappropriate disposition of jail telephone commissions by the County Jailer was noted in the prior year audit report:

FY 2003		
Deposited in Jail Canteen		\$ 21,197
FY 2004		
Deposited in Jail Canteen	\$ 2,743	
Deposited in Inmates Funds	2,356	
Undetermined	<u>6,733</u>	<u>11,832</u>
Total		<u>\$ 33,029</u>

In the future, we recommend the County Jailer turn over to the County Treasurer all jail telephone commissions when received. If the County Treasurer does not receive jail telephone commissions from the County Jailer on a timely basis, the County Treasurer should follow up with the County Jailer until resolved.

Former County Judge\Executive Michael Patrick's Response: During the 2004-2005 Fiscal Year, the Fiscal Court often requested from the Jailer that he turn over and provide the Court with the supporting documentation pertaining to the Telephone Commissions. Mr. Taylor refused to supply the Court with this information and revenue although many of these requests were made in open court.

2005-06 Restricted Local Government Economic Assistance (LGEA) Monies Should Be Returned To LGEA Fund

On October 20, 2004, a cash transfer of \$25,000 was made from the LGEA Fund to the General Fund. As of June 30, 2005, this amount had not been returned to the LGEA Fund. LGEA monies are to be used for priority categories as specified by KRS 42.455(2) and are therefore considered restricted funds not to be transferred to the General Fund unless specifically identified for priority expenditure categories. We recommend the Fiscal Court transfer \$25,000 from the General Fund to the LGEA Fund, thereby returning the restricted LGEA monies.

Former County Judge\Executive Michael Patrick's Response: Upon notification that in 2004-2005 that the LGEA monies were borrowed on October 20, 2004 and was inadvertently not refunded back to the LGEA Account, the Fiscal Court on March 15, 2007 issued a repayment of these funds back to the LGEA Account in the amount of \$25,000 paid on General Fund Check #7728 on March 16, 2007.

2005-07 Internal Controls Over Employee Time Recordkeeping Should Be Strengthened.

During the testing of payroll, we noted instances of time sheets that were not signed by the employee and/or supervisor. We further noted instances of time sheets not being mathematically correct and not agreeing with hours paid. In order to strengthen internal controls in the area of employee time recordkeeping, we recommend all time sheets be signed by the employee and the next appropriate level of supervision, noting mathematical accuracy, approval of hours worked, and leave time taken. We further recommend time sheet changes be reviewed and initialed by the supervisor, noting approval of the changes. In order to ensure the proper amount is paid, we also recommend that the Payroll Officer review the approved time sheets for accuracy. Any discrepancies noted on time sheets should be resolved and properly documented.

**WHITLEY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2005
(Continued)**

2005-07 Internal Controls Over Employee Time Recordkeeping Should Be Strengthened
(Continued)

Former County Judge\Executive Michael Patrick's Response: Although errors may have occurred, it was the policy that payroll calculations be performed as accurately as possible and signatures obtained from employees, supervisors, and officials. With the financial condition of the county during this period, we were unable to upgrade the time tracking equipment and procedures to increase the accuracy of the payroll system.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Burley Foley, Former Whitley County Judge/Executive
Honorable Michael L. Patrick, Former Whitley County Judge/Executive
Honorable Pat White, Jr., Whitley County Judge/Executive
Members of the Whitley County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Whitley County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 14, 2007. An adverse opinion was issued on the Jail Canteen Fund, a major enterprise fund, and on the business-type activities due to the omission of the Jail Canteen Fund in the County's basic financial statements. Whitley County presents its financial statements in accordance with the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Whitley County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations as 2005-07.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Whitley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as: 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, and 2005-06.

This report is intended solely for the information and use of management and the Kentucky Governor's Office For Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 14, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

WHITLEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

APPENDIX A

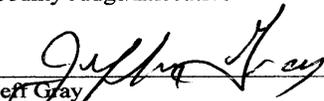
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
WHITLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Whitley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Mike Patrick
County Judge/Executive



Jeff Gray
County Treasurer

